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Nortel Plan May Be Heading for Stalemate, Judge Says (Update3)

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(Adds approval of bonuses in fifth paragraph.)

By Joe Schneider

March 4 (Bloomberg) -- Nortel Networks Corp.'s plan to distribute sales proceeds to creditors may be heading for a stalemate with former employees and bondholders both capable of vetoing the proposal being developed, a judge said.

Under Canada's bankruptcy law, a company's reorganization needs approval from both a majority of creditors in numerical terms and dollar terms. Former workers make up a majority of creditors numerically, while bondholders have the most debt.

"You may very well have a stalemate coming out of this," Ontario Superior Court Judge Geoffrey Morawetz, who is overseeing the Canadian restructuring, said at a hearing today in Toronto.

Nortel, once North America's biggest maker of telecommunications equipment, has been auctioning its assets since filing for bankruptcy protection in Canada and the U.S. in January 2009. The company has raised about \$3 billion from the sales, Nortel has said in court papers.

Separately, Nortel won authorization in its U.S. bankruptcy case for a special incentive plan that provides a new round of bonuses worth as much as \$92.4 million for certain employees over the next two years. U.S. Bankruptcy Judge Kevin Gross in Wilmington, Delaware, approved Nortel's plan in an order today.

At today's hearing in Toronto, some of Nortel's former and disabled workers urged the judge to reject a proposal under which Nortel agreed to set aside C\$57 million (\$55 million) to pay benefits to the end of the year. After that, the workers will be officially fired and their benefits terminated, leaving them to live on government assistance, according to a group representing them.

39-Year Employee

Barbara Arnelien, whose husband Stan worked for Nortel for 39 years and is confined to a wheelchair as a result of a stroke, said the couple never dreamed they would lose company benefits that include a pension, dental and coverage for drugs and Stan's C\$5,000 wheelchair.

"We are not unhappy," she told the judge. "We are sad."

The couple, who had already spent C\$100 on gas to make the three-hour drive twice to Toronto from Meaford, Ontario, for the hearing has already been forced to cut back on expenses, including a newspaper subscription, haircuts, dining out and going to movies, Arnelien said.

Without the judge's approval of the deal, Nortel will stop benefit payments at the end of this month, creating a hardship for the 20,000 affected people, said Derrick Tay, a company lawyer. The settlement also includes severance and termination payments of as much as C\$3,000 each to fired Nortel workers.

Fair Settlement

The settlement has the support of the company, creditors' groups, and Koskie Minsky LLP, the court-appointed law firm representing former, retired and disabled workers, who say it's fair and gives the former employees time to prepare for the loss of benefits.

Joel Rochon, a lawyer representing 37 disabled former workers opposed to the settlement, told Morawetz he can order Nortel to keep paying the benefits from money the company has already set aside. The judge reserved that option in an earlier ruling, Rochon said.

The former workers shouldn't have to give up their right to sue the company, its directors or a trustee overseeing a fund Nortel created to pay health benefits to get an extra nine months of payments, as the settlement requires, Rochon said. In exchange for the extra benefits, most of Nortel's disabled employees will end up living below the poverty line, a group representing the former workers said today.

Poverty Line

"This is what their future holds after Dec. 31," the group, Rights for Nortel Disabled Employees, said in an e-mailed statement.

The disabled workers will get about C\$16,000 a year from a federal pension plan, without benefits, rather than 50 percent of their pay, which averaged about C\$70,000 a year, with benefits, Rochon said.

The hearing is scheduled to conclude tomorrow.

The case is in the matter of a plan of compromise or arrangement of Nortel Networks Corp., M37770, Court of Appeal for Ontario (Toronto). The U.S. bankruptcy case is Nortel Networks Inc., 09-10138, U.S. Bankruptcy Court, District of Delaware (Wilmington).

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